Acute Care Actuarial Memorandum

I. Purpose:

The purpose of this actuarial memorandum is to demonstrate that the Acute Care capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

II. Overview of Bid Methodology:

Contract year ending 2009 (CYE09) represents the first year of the newly-awarded, competitively-bid contracts for the Acute Care program of the Arizona Health Cost Containment System (AHCCCS). AHCCCS actuaries developed actuarially sound rate ranges for the twelve month period of the CYE09 contract year (October 1, 2008 through September 30, 2009) to be used in the evaluation of the CYE09 bids submitted by prospective offerors. For those rate cohorts for which the offerors were not required to bid, AHCCCS actuaries developed actuarially sound capitation rates. CYE09 can be classified as a rate development year rather than a rate update to the previously approved CYE08 capitation rates. Table I below summarizes the competitive bid options.

Table I: Bid Options

Rate Cohort	Rate Ranges Developed by AHCCCS	Rates Developed/ Published by AHCCCS	Competitive Bid Allowed by AHCCCS
Prospective TANF & KidsCare < 1 M&F	Yes	No	Yes
Prospective TANF & KidsCare 1-13 M&F	Yes	No	Yes
Prospective TANF & HIFA 14-44 F & KidsCare 14-18 F	Yes	No	Yes
Prospective TANF & HIFA 14-44 M & KidsCare 14-18 M	Yes	No	Yes
Prospective TANF & HIFA 45+ M&F	Yes	No	Yes
Prospective SSI With Medicare	Yes	No	Yes
Prospective SSI Without Medicare	Yes	No	Yes
Prospective Non-MED	Yes	No	Yes
Prospective MED	No	Yes	No
Sobra Family Planning Services	No	Yes	No
Maternity Delivery Payment	No	Yes	No
Option 1&2 Transplant (State Only)	No	Yes	No
Prior Period Coverage (all rate cells)	No	Yes	No

The actuarially sound rate ranges for the risk groupings that were open to a competitive bid were used when scoring each prospective contractor's bid. Each contractor that was extended an award, and accepted, had a final capitation rate that fell within this actuarially sound rate range. As part of their award, the winning offerors also had to accept the actuarially sound rates for the rate cohorts that were not competitively bid.

III. Overview of Rate Setting Methodology:

Since CYE09 is a rate development year, AHCCCS actuaries developed a new base time period with which to develop CYE09 rates and rate ranges. Historical Medicaid managed care encounter data was used as the primary data source in development of the base time period. This encounter data was made available to AHCCCS actuaries and to all potential bidders via an extract that provides utilization and cost data, referred to as the "databook".

Other data sources used in setting the actuarially sound rates and rate ranges include health plan financial statements, program changes, anticipated AHCCCS Fee For Service rate increases, Center for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) Report estimates and Global Insight Prospective Hospital Market Basket Inflation Index (GI) information.

In order for prospective offerors to be able to submit appropriate CYE09 bids, AHCCCS made available the encounter databook and other supplemental resources such as financial data, analysis of program changes and enrollment information to all prospective offerors.

The contract between AHCCCS and the contractors specifies that the contractors may cover additional services. Non-covered services were removed from the databook and excluded from rate development.

Trend rates were calculated from the databook and other sources on a unit cost and/or utilization basis by category of service (COS) and a cap was applied to limit the negative and positive trends to a reasonable level. These adjustments also include state mandates, court ordered programs and other program changes, if necessary. For more information on trends see Section V Projected Trend Rates.

The Acute Care program has a large membership base, which allows for the experience data to be analyzed by the different rate cells. These rate cells are comprised of members with similar risk characteristics. The rate cells were analyzed by major categories of aid (COA), i.e. risk groups, and COS. In addition, AHCCCS develops rates by Geographic Service Area (GSA).

The experience data includes only Acute Care Medicaid eligible expenses for Acute Care Medicaid eligible individuals, as well as reinsurance amounts. The Prior Period Coverage (PPC) rates are reconciled to a maximum 2% profit or loss and the Medical Expense Deduction (MED) rates are reconciled to a maximum 3% profit or loss. Additional payments are made for members giving birth via a Maternity Delivery Payment.

The general process in developing the prospective rates involves trending the base data, adjusted for program changes, to the midpoint of the effective period, which is April 1, 2009. The next step involves the deduction of the reinsurance offsets. Following this calculation, the projected administrative expenses, risk/contingency margin and premium tax are added to the projected claim PMPMs to obtain the capitation rates. Each step is described in the sections below.

In addition there are sections dedicated to the development of other rates including, but not limited to, the Maternity Delivery Payment and PPC rates. Per the contract, the Hospital Supplemental payment and the HIV/AIDS supplemental payment are no longer available for CYE09 and these expenses have been rolled into the base data. The Hospital Supplemental payment only impacts the MED members with approximately 95% of the costs in the PPC time frame; hence the PPC MED rate shows substantial increase.

New for this contract year AHCCCS will be applying risk adjustment factors with an April 1, 2009 implementation date. This adjustment will be budget neutral to AHCCCS.

IV. Base Period Experience

AHCCCS used historical encounter data for the time period from October 1, 2004 through March 31, 2007. The data was reviewed and audited for accuracy, timeliness and completeness through encounter validation studies as well as studies comparing the encounter data to the contractors' financial statements. Through this audit process AHCCCS determined that one contractor's encounter data was insufficient and thus that contractor's encounter data and member month data were removed from the final databook. The removal of this contractor's data does not have a material impact on the capitation rates or rate ranges. Another adjustment to the base data is the removal of the encounters associated with a birth event since these costs are paid for in the Maternity Delivery Supplemental Rate. The encounters that were removed from the base data were used to develop the Maternity Delivery Supplemental Rate. A final adjustment was to apply completion factors to the encounter data for the more recent years.

V. Projected Trend Rates

The trend analysis includes both the financial data experience and the encounter data experience. Financial data experience is from the contract year ending September 2005 through September 2007. Encounter data experience is from the contract year ending September 2005 through March 2007. In addition to using encounter and financial data, AHCCCS used information from CMS NHE Report estimates, GI information, and changes in AHCCCS' Professional and Outpatient Fee Schedules, Dental Fee Schedule, Transportation Schedule and other sources. AHCCCS developed utilization and unit cost trend estimates using the encounter data. These trends were developed by major COA and COS, with a cap on the percentage increase and decrease to smooth out exceptional trends. Once these trends were developed they were analyzed by comparing the results to reports and studies (for example the CMS NHE report). The utilization and unit cost trend rates used in projecting the claim costs are summarized in the Appendix in Table A1. The prospective PMPM trends are shown below in Table II. These trends do not reflect the impact of rebasing or any program change impacts. These are true trends from the data mentioned above.

Table II: Prospective Average Annual PMPM Trends

PMPM Trends				
Categories of Service	TANF & KidsCare & HIFA Combined	SSI With Medicare	SSI without Medicare	TWG
Hospital Inpatient	16.0%	12.7%	9.8%	13.3%
Outpatient Facility	10.5%	2.0%	2.5%	6.0%
Emergency Room	8.4%	5.7%	4.5%	6.2%
Primary Care	3.9%	6.0%	3.3%	4.9%
Referral Physician	3.3%	4.4%	3.0%	4.0%
Other Professional	4.1%	4.4%	0.7%	4.5%
Pharmacy	10.9%	6.0%	8.8%	8.0%
Other	5.9%	5.3%	5.7%	6.3%

Hospital Inpatient Trends

Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data, the inpatient utilization varied from 6.3 to 11.9 percent annually, depending upon risk group. For CYE09, AHCCCS used the encounter data and GI Information to develop the inpatient unit cost trends which varied from 2.6 to 4.3 percent annually. On a combined basis, the per member per month (PMPM) trends for inpatient hospital have been trended at 9.8 to 16.0 percent, depending upon rating group. These ranges are summarized in the Appendix in Table A1.

Hospital Outpatient and Emergency Room Trends

Per the AHCCCS Rule for the Outpatient Fee Schedule (OPFS), on an annual basis the rates are to be adjusted by multiplying the rates effective during the prior year by the GI or by adjusting rates at varying levels with the total dollar impact equal to that of the GI inflationary increase. Based on this requirement, unit costs for hospital outpatient have been trended approximately four percent annually. The utilization trends were developed using the data sources mentioned in Section II with emphasis on the AHCCCS encounter data. On a combined basis, the PMPM costs for hospital outpatient and emergency room have been trended at 2.0 to 10.5 percent, depending upon rating group. These ranges are summarized in the Appendix in Table A1.

Physician and Other Services Trends

Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data, the assumed utilization for physicians and other professionals ranged from 0.7 to 6.0 percent annually, depending upon rating group and category of service. Based on a review of the same sources, unit costs have been trended at 0.0 to 0.6 percent annually. On a combined basis, the PMPM costs for physicians and other professionals have been trended at 0.7 to 6.0 percent, depending upon rating group. These ranges are summarized in the Appendix in Table A1.

Pharmacy Trends

Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data, the assumed pharmacy utilization changed by -5.5 to 4.7 percent, depending upon rating group. Based on a review of the same sources, unit costs have been trended at 3.1 to 17.4 percent. On a combined basis, the PMPM costs for

pharmacy have been trended at 6.0 to 10.9 percent, depending upon rating group. These ranges are summarized in the Appendix in Table A1.

Other Services Trends
Using the data sources mentioned in Section II and emphasizing the AHCCCS encounter data and changes in transportation and dental fee schedules, the assumed PMPM costs for other services have been trended at 5.3 to 6.3 percent, depending upon rating group. These ranges are summarized in the Appendix in Table A1.

VI. State Mandates, Court Ordered Programs, Program Changes and Other Changes

Human Papillomavirus (HPV)
Federal law requires that AHCCCS cover the human papillomavirus (HPV) vaccine as part of the EPSDT benefit package for all females age 20 and under. In addition, the recently enacted budget continues funding to cover women up to age 26. Coverage for women under the age of 20 started on December 1, 2006 and coverage for women up to age 26 started on October 1, 2007. For women through age 18, the vaccine is covered under the Vaccines for Children Program described in Section D: Program Requirements of the RFP document. Contractors are only responsible for the administration costs for women through age 18, but are responsible for both vaccine and administration above age 18.

AHCCCS estimated the cost to be approximately $11.5 million for CYE08, which included initial presentation for the new service and annual ongoing services and assumed a 30% presentation rate. TANF 1-13 initial costs were estimated to be approximately $560,000 and TANF 14-44 Female costs were estimated to be approximately $9,950,000. Ongoing annual costs for TANF 1-13 were estimated to be approximately $210,000 and the TANF 14-44 female ongoing annual costs were estimated to be approximately $740,000.

The cost to AHCCCS for CYE09 to provide this service is only the ongoing annual costs which are estimated to be approximately $950,000. The statewide impact is a 0.03% increase.

Outlier Hospital Reimbursement Rates
This amendment of State law, also passed in the 2007 legislative session, changes the methodology for the payment of claims with extraordinary operating costs per day. It stipulates that AHCCCS shall phase in the use of the most recent statewide urban and rural average Medicare or Medicare approved cost-to-charge ratios to qualify and pay extraordinary operating costs starting October 1, 2007. October 1, 2008, begins the second year of the three-year phase-in. Once fully-phased in, those cost-to-charge ratios will be updated annually. In addition, routine maternity charges will be excluded from outlier consideration. Since the base data will not reflect the first year impact, the base data needs to be adjusted by two years of outlier phase-in. The statewide impact to the AHCCCS Acute program, net of reinsurance, is a savings of approximately $37 million for CYE09. The statewide impact, net of reinsurance, is a 1.36% decrease.

Hospice
Legislation passed by the 2007 State Legislature allows the AHCCCS Acute program to cover Hospice services for adults. The cost to AHCCCS to provide this service is estimated to be approximately $3 million for CYE09. The statewide impact is a 0.11% increase.

Hospital Inpatient and Outpatient Rate Freeze
State legislation, signed into law in 2008, mandates that "For rates effective October 1, 2008, through September 30, 2009, the AHCCCS administration shall not increase the inpatient hospital tier per diem rates, inpatient hospital outlier thresholds or aggregate outpatient hospital fee schedule rates above the rates in effect on September 30, 2008..." The statewide impact to the acute program is a decrease of approximately $33 million or a 1.24% decrease.

TWG Non-Med Redetermination
State legislation, signed into law in 2008, mandates that redetermination for continued eligibility for non-MEDs shall occur every six months, as opposed to the current 12 months. AHCCCS does not anticipate any impact to the non-MED capitation rates for CYE09.

Service Shifts to Children's Rehabilitative Services (CRS)
Starting October 1, 2008, AHCCCS is shifting the responsibility for payment of specific services to the CRS contractor when those services are directly related to a member's CRS condition. These services include coverage of limited biotech drugs, cochlear implants, motorized wheelchairs, and emergency department treatment at CRS-contracted facilities. CRS will also begin to cover acute conditions within the scope of practice of the CRS specialist when diagnosed and treated at the time of a CRS visit. Some of the shifting services are new to the CRS population (e.g. certain biotech drugs), thus they are not included in the acute base rates. For those services that are in the acute base rates, the statewide impact to the acute program due to shifting services to CRS is a decrease of approximately $1.0 million or 0.04% decrease.

Smoking Cessation
Starting October 1, 2008, in accordance with Laws 2008, Chapter 131, AHCCCS is adding coverage for eligible tobacco cessation products which include nicotine replacement therapy (NRT) and tobacco use medications. Coverage of these products will be available to eligible Title XIX AHCCCS members who wish to stop tobacco use and who are enrolled in a tobacco cessation program offered by the Arizona Department of Health Services. The statewide impact to the acute program is an increase of approximately $2.2 million or 0.08% increase.

VII. Prospective Projected Net Claim PMPM

The base utilization, unit costs and net claims PMPMs are trended forward and adjusted for state mandates, court ordered programs and program changes to project the CYE09 utilization, unit costs and net claims PMPMs for each COS and COA.

VIII. Prospective Reinsurance Offsets

The reinsurance offsets were reviewed by AHCCCS for appropriateness and reasonableness using reinsurance encounter and payment information. As a result of this review AHCCCS rebased the reinsurance offsets using data from October 2003 through September 2006. Completion factors were added to the data and these results were trended forward. The statewide prospective impact is 1.56%. There is an additional statewide prospective impact of 2.12% resulting from shifting deductibles and enrollment levels. Specifically the contractor with the largest membership, which is currently at the $20,000 deductible level, selected the $35,000 deductible level for CYE09 (as permitted by contract) thus reducing the reinsurance offset for that contractor and resulting in an increased capitation rate. And one contractor that is staying at the $50,000 deductible level in CYE09 will see significantly increased enrollment due to RFP awards, resulting in a shifting of members currently at lower deductible levels to the $50,000 threshold.

IX. Prospective Administrative Expenses and Risk Contingency

The administrative expense decreased from 9% to 8.5% for general administration, which was determined to be appropriate to cover the contractors' average expenses. The risk contingency load also decreased for rate cohorts without a risk corridor from 2.5% to 2% and remained the same (2%) for those rate cohorts with a risk corridor.

X. Prospective Proposed Capitation Rates and Their Impacts

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VII) less the reinsurance offsets (in section VIII) and the projected administrative expenses and risk contingency PMPM (in section IX), divided by one minus the two percent premium tax. The final adjustment, which will be a budget neutral adjustment, is the risk adjustment factor (in Section XI). Appendix II contains the proposed capitation rates and the budget impact for all capitation rates using projected contract year ending 2009 member months and actual health plan reinsurance deductible levels.

XI. Risk Adjustment Factor (aka Eligibility Choice Adjustment)

Historically AHCCCS evaluated eligibility choice data to determine if a selection bias by higher acuity individuals existed between the contractors. Due to the method that was used to run this analysis only those geographic regions with a large enough population could be used and adjusted, thus limiting the risk adjustment to Maricopa County. For CYE09, AHCCCS will be implementing a different method of risk adjustment by using risk scores from a national model, which will continue to be budget neutral to AHCCCS. The model AHCCCS will utilize is the Ingenix ERG Model. Due to the fact this is a bid year and some members will be settling into new health plans, AHCCCS is delaying the implementation of risk adjusted rates until April 2009. This six month period will allow the membership time to settle. Risk scores, which are factored at the individual member level, will be applied to the members' health plan of enrollment as of January 2009. The adjustment will be retroactive to the start of the contract year (October 1, 2008). Due to the fact this is the first year AHCCCS is implementing the model, AHCCCS will use a phased-in

approach using 80% as the phase-in percentage. For CYE10 this method will be factored in at 100% and applied at the start of the contract year.

XII. Maternity Delivery Payment

The methodology followed in developing the Maternity Delivery Payment is similar to the methodology used in the development of the prospective capitation rates. This methodology involves rebasing the rate using the same base period discussed in section IV and applying similar trends as discussed in section V. The impact is a 0.8% increase per delivery over the CYE08 maternity delivery payment rate.

XIII. Extended Family Planning Services (FPS)

The methodology followed in developing the FPS rate is similar to the methodology used in the development of the prospective capitation rates. This methodology involves rebasing the rates using the same base period discussed in section IV and applying similar trends as discussed in section V. The impact is a 4.0% increase over the CYE08 rate.

XIV. HIV/AIDS Supplemental Payment

As of October 1 2008, AHCCCS will no longer reimburse contractors with a separate HIV/AIDS Supplemental Payment (HASP) for enrollees that have contracted the HIV/AIDS virus. This supplemental payment was originally developed to cover the costs of HIV/AIDS medications and lab testing. For CYE09 AHCCCS reviewed the current HIV/AIDS supplemental payment costs and encounters. The analysis revealed that the HIV/AIDS encounters have been consistent, without large fluctuations, thus indicating that the data can be rolled into the rates rather than maintaining a supplemental payment. Therefore AHCCCS is removing the HIV/AIDS Supplemental Payment for CYE09 and including the costs for this in the acute component base rates. Statewide impact is budget neutral.

XV. Hospital Supplemental Payment

The current Hospital supplemental payment and encounter data was reviewed to determine if this supplemental payment was necessary. The analysis revealed that the Hospital Supplemental encounters have been consistent without large fluctuations and that the data should be rolled into the rates rather than having a supplemental payment. Thus there will be no Hospital Supplemental Payment for CYE09; this only impacts the MED rates, which are reconciled. Due to the significant costs that will now be distributed over only the MED population, with approximately 95% of costs incurred in the PPC time frame, there is a large increase in the MED capitation rates for CYE09, particularly in the PPC MED rate.

XVI. KidsCare and HIFA Rates

Continuing with the methodology of previous years, AHCCCS contractors will be paid one blended capitation rate that includes experience from both the traditional TANF Medicaid population and the Title XXI SCHIP population. In addition the HIFA II Wavier population will be added to these cohorts to establish a more

consistent base and trends for the HIFA population. The rate cohorts whose experience is blended together are detailed as follows:

- TANF < 1 and KidsCare < 1;
- TANF 1– 13 M&F and KidsCare 1 – 13 M&F;
- TANF 14 – 44 F and KidsCare 14 – 18 F and HIFA 14-44 F;
- TANF 14 – 44 M and KidsCare 14 – 18 M and HIFA 14-44 M; and
- TANF 45+ M&F and HIFA 45+ M&F

XVII. Prior Period Coverage Rates (PPC)

PPC rates cover the period of time from the first day of retroactive eligibility to the date of eligibility determination. For CYE09 AHCCCS rebased the PPC rates based on encounter data. In addition, a review of AHCCCS contractor financial data and recent reconciliation payments by AHCCCS indicates a large increase is necessary for this population. The statewide impact, including the impact of removing the Hospital Supplemental Payment, is 20.3%. The PPC rates will be reconciled to a maximum 2.0% profit or loss in CYE09.

XVIII. Final Capitation Rates and Their Impact

Table III below summarizes the changes from the CYE08 rates.

Table III: Changes from CYE08 Rates

AHCCCS Medicaid Managed Care Summary			
Adjustments to CY08 Rates	Prospective	PPC [1]	Weighted Average
Rebase:			
1. Total	1.08%	n/a	0.96%
Trend:			
1. Utilization	4.01%	10.90%	4.55%
2. Inflation	4.38%	9.83%	4.83%
Program Changes			
1. HPV	0.04%	n/a	0.03%
2. Outlier	-1.54%	n/a	-1.36%
3. Hospice	0.13%	n/a	0.11%
4. Hospital Freeze	-1.06%	-2.99%	-1.24%
5. Tobacco Cessation	0.09%	n/a	0.08%
6. Shift Services from Acute to CRS	-0.04%	n/a	-0.04%
Total Percentage Change	7.46%	20.34%	8.69%

1) Trend includes impact of rebase and program changes also includes impact of Hospital Supplemental

XIX. CMS Rate Setting Checklist

1. Overview of rate setting methodology

A.A.1.0: Overview of rate setting methodology

AHCCCS is performing a rebase from the previously approved contract year ending 2008 (CYE08) under 42 CFR 438.6(c). Please refer to Section II.

AA.1.1: Actuarial certification

Please refer to Section XX.

AA.1.2: Projection of expenditure

Please refer to Appendix II.

AA.1.3: Procurement, prior approval and rate setting

AHCCCS is operating under the Sole Source contracting method.

AA.1.5: Risk contract

AHCCCS limits risk for the MED risk group and PPC time period to 3% and 2% profit or loss, respectively.

AA.1.6: Limit on payment to other providers

AHCCCS makes no additional payment to providers, except for Disproportionate Share Hospital (DSH), Graduate Medical Education (GME) and Critical Access Hospitals. GME is paid in accordance with state plan. DSH and Critical Access Hospital payments are paid in accordance with the Waiver Special Terms and Conditions. None of the additional payments to providers were included in the capitation calculation.

AA.1.7: Rate modification

Please refer to Sections III, IV, V, VI, VIII, IX and XI through XVII.

2. Base Year Utilization and Cost Data

AA.2.0: Base year utilization and cost data

Please refer to Sections III and IV.

AA.2.1: Medicaid eligibles under the contract

The data includes only those members eligible for managed care.

AA.2.2: Dual Eligibles (DE)

There are dual eligibles.

AA.2.3: Spenddown

Not applicable, not covered under this contract.

AA.2.4: State plan services only

The contract between AHCCCS and its contractors specifies that the contractors may cover additional services. Non-covered services were removed from the encounter data used to set the rates.

AA.2.5: Services that can be covered by a capitated entity out of contract savings.

Same as AA.2.4

3. Adjustments to the Base Year Data

AA.3.0 Adjustments to base year data

Please refer to Sections III, IV, V and VI.

AA.3.1 Benefit differences

There are no changes to the covered benefits. Therefore, no adjustment was made.

AA.3.2 Administrative cost allowance calculation

Please refer to Section IX.

AA.3.3 Special populations' adjustment

It is anticipated that the risk characteristics of this population will not change materially from the base period to the effective period of the capitation rates. Therefore, no adjustment was made.

AA.3.4 Eligibility Adjustments

No adjustment was made.

AA.3.5 DSH Payments

No DSH payment was included in the capitation development

AA.3.6 Third party Liability (TPL)

This is a contractual arrangement between AHCCCS and its contractors.

AA.3.7 Copayments, coinsurance and deductible in the capitated rates

In general, Acute members do not pay any copays, coinsurance or deductibles, but there are a few that pay copays. The encounter data is net of copays.

AA.3.8 Graduate Medical Education (GME)

The experience excludes any payment for GME.

AA.3.9 FQHC and RHC reimbursement

The experience excludes any additional payments that FQHCs may receive from the State.

AA.3.10 Medical cost/ trend inflation

Please refer to Section V.

AA.3.11 Utilization adjustment

Other than trend, no specific adjustment was made to utilization.

AA.3.12 Utilization and cost assumptions

Not applicable, since actual experience was used.

AA.3.13 Post-eligibility treatment of income (PETI)

Not applicable, not required to consider PETI.

AA.3.14 Incomplete data adjustment.

The encounter data was not fully complete. AHCCCS applied completion factors by form type, geographical area and contract year to the encounter data. The audited financial statements may include outstanding claim liabilities, which were audited and believed to be reasonable by AHCCCS auditors.

4. Establish Rate Category Groupings

AA.4.0: Establish rate category groupings

Please refer to Section III.

AA.4.1: Age

Please refer to Section III.

AA.4.2: Gender

Please refer to Section III.

AA.4.2: Locality/region

Please refer to Section III.

AA.4.2: Eligibility category

Please refer to Section III.

5. Data Smoothing, Special Populations and Catastrophic Claims

AA.5.0: Data smoothing

Please refer to Sections III, IV and V.

AA.5.1: Special populations and assessment of the data for distortions

Data was not adjusted for special populations.

AA.5.2: Cost-neutral data smoothing adjustments

AHCCCS has a reinsurance program please refer to Section VIII and a maternity kick-payment please refer to Section XII.

AA.5.3: Risk-adjustment

Please refer to Section XI.

6. Stop Loss, Reinsurance, or Risk-Sharing arrangements

AA.6.1: Commercial reinsurance

There is no commercial reinsurance.

AA.6.2: Simple stop loss program

Please refer to Section VIII.

AA.6.3: Risk corridor program

There is the stop loss program (i.e. Reinsurance), PPC and MED reconciliations.

7. Incentive Arrangements

At this time there are no incentive arrangements.

XX. Actuarial Certification of the Capitation Rates:

I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries and a Fellow of the Society of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning October 1, 2008.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates. The rates are actuarially sound in aggregate by GSA. Given the distribution of the AHCCCS population, it is not possible to certify that every cell is actuarially sound. Some rate cells do not contain a large enough base of data from which to derive actuarially sound trends.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by the contractors and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the health plan auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

Windy J. Marks 09-02-08

Windy J. Marks — Date

Fellow of the Society of Actuaries
Member, American Academy of Actuaries

Appendix

Table A1: Prospective Trends

Utilization per 1,000 trends				
Categories of Service	TANF & KidsCare & HIFA Combined	SSI With Medicare	SSI without Medicare	TWG
Hospital Inpatient	11.9%	9.9%	6.3%	8.6%
Outpatient Facility	7.0%	-0.3%	-0.1%	3.4%
Emergency Room	4.5%	3.0%	1.0%	2.6%
Primary Care	3.3%	6.0%	3.3%	4.9%
Referral Physician	3.3%	4.4%	3.0%	4.0%
Other Professional	4.1%	4.4%	0.7%	4.5%
Pharmacy	-5.5%	0.0%	3.8%	4.7%
Other	n/a	n/a	n/a	n/a

Unit Cost Trends				
Categories of Service	TANF & KidsCare & HIFA Combined	SSI With Medicare	SSI without Medicare	TWG
Hospital Inpatient	3.7%	2.6%	3.3%	4.3%
Outpatient Facility	3.2%	2.3%	2.6%	2.5%
Emergency Room	3.7%	2.6%	3.5%	3.5%
Primary Care	0.6%	0.0%	0.0%	0.0%
Referral Physician	0.0%	0.0%	0.0%	0.0%
Other Professional	0.0%	0.0%	0.0%	0.0%
Pharmacy	17.4%	6.0%	4.8%	3.1%
Other	n/a	n/a	n/a	n/a

PMPM Trends				
Categories of Service	TANF & KidsCare & HIFA Combined	SSI With Medicare	SSI without Medicare	TWG
Hospital Inpatient	16.0%	12.7%	9.8%	13.3%
Outpatient Facility	10.5%	2.0%	2.5%	6.0%
Emergency Room	8.4%	5.7%	4.5%	6.2%
Primary Care	3.9%	6.0%	3.3%	4.9%
Referral Physician	3.3%	4.4%	3.0%	4.0%
Other Professional	4.1%	4.4%	0.7%	4.5%
Pharmacy	10.9%	6.0%	8.8%	8.0%
Other	5.9%	5.3%	5.7%	6.3%

Acute Capitation Rate Analysis (Renewal Rates--pending approval)
Point in Time Comparison--no member growth factor
CYE '09
APPENDIX II

Title XIX Waiver Group		CYE09 Projected Member Months	Cap Rate-'08 based on CYE09 Projected Member Months	Total Annual Dollars CYE '08 based on CYE09 Projected MMs	Cap Rate-'09 based on CYE09 Projected Member Months	Total Annual Dollars CYE '09 based on CYE09 Projected MMs	Difference	% Increase
	[1] Prospective-MED	55,280	$ 950.58	$ 52,547,601	$ 1,366.25	$ 75,525,637	$ 22,978,036	43.7%
	[1] PPC-MED	15,904	$ 2,240.61	$ 35,634,810	$ 7,589.57	$ 120,705,026	$ 85,070,216	238.7%
	[2] Hospitalized Supp-MED	6,446	$ 10,850.58	$ 69,940,873	$ -	$ -	$ (69,940,873)	-100.0%
	Total MED			$ 158,123,285		$ 196,230,664	$ 38,107,378	24.1%
	[1] Prospective-non-MED	1,355,280	$ 465.82	$ 631,316,649	$ 560.70	$ 759,905,639	$ 128,588,991	20.4%
	[1] PPC -non-MED	136,406	$ 884.65	$ 120,671,980	$ 1,176.95	$ 160,543,590	$ 39,871,610	33.0%
	Total non-MED			$ 751,988,628		$ 920,449,229	$ 168,460,600	22.4%
	Total TWG			$ 910,111,913		$ 1,116,679,892	$ 206,567,979	22.7%
TXIX								
	[1] <1	663,444	$ 508.42	$ 337,308,011	$ 515.26	$ 341,845,965	$ 4,537,954	1.3%
	[1] 1-13	4,665,444	$ 112.11	$ 523,042,915	$ 112.63	$ 525,468,946	$ 2,426,031	0.5%
	[1] 14-44F	2,062,284	$ 217.24	$ 448,010,618	$ 243.18	$ 501,506,270	$ 53,495,652	11.9%
	[1] 14-44M	897,553	$ 142.50	$ 127,901,365	$ 145.55	$ 130,638,903	$ 2,737,538	2.1%
	[1] 45+	280,835	$ 385.08	$ 108,143,820	$ 405.70	$ 113,934,631	$ 5,790,811	5.4%
	[1] SSI w/Med	757,203	$ 161.72	$ 122,454,870	$ 156.94	$ 118,835,440	$ (3,619,430)	-3.0%
	[1] SSI w/o Med	643,045	$ 708.38	$ 455,520,193	$ 742.21	$ 477,274,404	$ 21,754,211	4.8%
	[1] SFP	48,011	$ 18.30	$ 878,432	$ 19.03	$ 913,747	$ 35,315	4.0%
	[1] Delivery Supplemental Payment	34,525	$ 6,580.95	$ 227,206,772	$ 6,635.02	$ 229,073,535	$ 1,866,762	0.8%
	Total Prospective-non-TWG			$ 2,350,466,997		$ 2,439,491,841	$ 89,024,845	3.8%
	[1] PPC'<1	20,499	$ 1,155.84	$ 23,693,606	$ 1,217.19	$ 24,951,222	$ 1,257,616	5.3%
	[1] PPC'1-13	244,214	$ 59.30	$ 14,481,915	$ 64.46	$ 15,742,061	$ 1,260,146	8.7%
	[1] PPC '14-44F	152,393	$ 225.72	$ 34,398,068	$ 256.13	$ 39,032,329	$ 4,634,260	13.5%
	[1] PPC '14-44M	59,268	$ 196.64	$ 11,654,417	$ 217.95	$ 12,917,414	$ 1,262,996	10.8%
	[1] PPC '45+	16,236	$ 381.25	$ 6,189,794	$ 445.98	$ 7,240,720	$ 1,050,926	17.0%
	[1] PPC 'SSI w/Med	10,396	$ 134.07	$ 1,393,780	$ 134.76	$ 1,400,953	$ 7,173	0.5%
	[1] PPC 'SSI w/o Med	19,308	$ 340.04	$ 6,565,378	$ 419.93	$ 8,107,868	$ 1,542,489	23.5%
	PPC All non-TWG rate codes	522,313		$ 98,376,959		$ 109,392,566	$ 11,015,607	11.2%
	Total Title XIX-non-TWG			$ 2,448,843,955		$ 2,548,884,407	$ 100,040,452	4.1%
Other								
	[1] HIFA Parents 14-44F -TXXI	50,557	$ 230.13	$ 11,634,474	$ 243.18	$ 12,294,451	$ 659,977	5.7%
	[1] HIFA Parents 14-44M -TXXI	38,070	$ 141.24	$ 5,377,005	$ 145.55	$ 5,541,089	$ 164,084	3.1%
	[1] HIFA Parents 45+ -TXXI	38,070	$ 411.40	$ 15,662,164	$ 405.70	$ 15,444,999	$ (217,165)	-1.4%
	[4] HIV/AIDS Supp	11,000	$ 1,051.86	$ 11,570,460	$ -	$ -	$ (11,570,460)	-100.0%
Grand Total Capitation				**$ 3,403,199,971**		**$ 3,698,844,838**	**$ 295,644,867**	8.7%

[1] Population estimates for CYE 2009 are taken from DBF projections.

[2] HIV/AIDS and Hospital Supplement member months will be 0 in CYE 2009. Displayed above are projected CYE 2009 member months for HIV/AIDS and Hospital Supplement solely for the purpose of calculati a CYE 2008 Estimated Capitation Total.

[3] Mercy switched from a 20,000 reinsurance deductible level to a 35,000 deductible level for CYE09. Thus CYE08 numbers are at the 20,000 reinsurance deductible level and at a 35,000 deductible level for CY